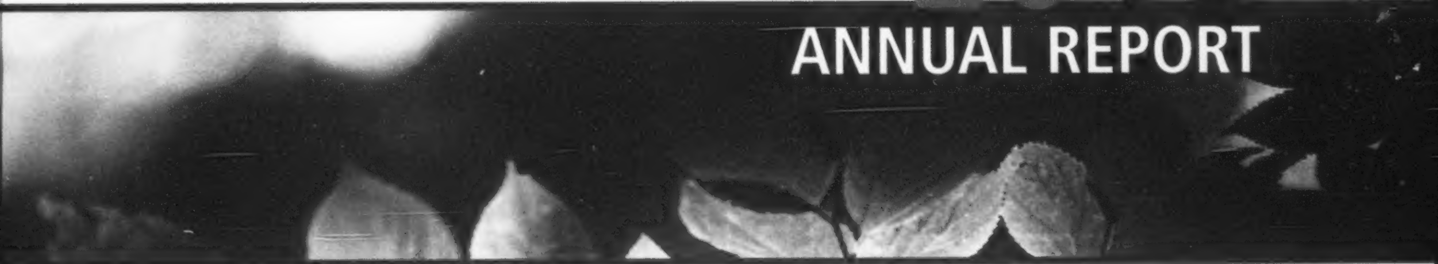
MUNICIPAL EMPLOYEES' PENSION PLAN

2010 ANNUAL REPORT



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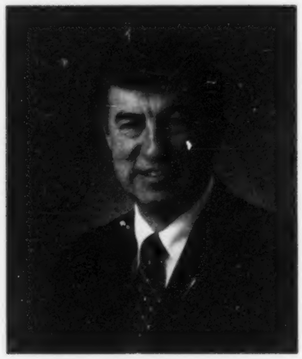
Letters of Transmittal



Ken Krawetz
Minister of Finance

His Honour, The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of the Province of Saskatchewan

May it Please Your Honour:

I respectfully submit the Annual Report of the Municipal Employees' Pension Plan for the year ending December 31, 2010.

Ken Krawetz
Minister of Finance

The Honourable Ken Krawetz
Minister of Finance

Sir:

On behalf of the Municipal Employees' Pension Commission, I have the honour of submitting the Annual Report of the Municipal Employees' Pension Plan for the year ending December 31, 2010.

Bonnie Ozirny
Chair

The Municipal Employees' Pension Plan Commission

LEFT TO RIGHT: Ralph Paquin, Ray Sass, Orrin Redden, Kevin Ritchie, Bonnie Ozirny, Earl Braun, Betty Moleski Allan Johnson, Jim Hallick, Roland Zimmer

PURPOSE

To provide retirement income and pension services to members.

MISSION

To oversee and direct the administration of the Plan, and to manage the assets in the best interest of the members.

GOALS

- Provide customer-oriented communications and service.
- Maintain the financial integrity of the Plan.
- Plan Governance.
- Accountability.

Chair's Comments

Bonnie Ozirny
Chair

It is my privilege to chair the Municipal Employees' Pension Commission (MEPC). I would like to express appreciation on behalf of the Commission to Ralph Paquin, for his dedication in serving as Chair in 2010.

These are difficult times for defined benefit (DB) plans across North America. MEPP is a healthy DB plan and it is the wish of the MEPC, in the interests of prudent stewardship, to maintain that financial stability. Therefore the MEPC decision to link the funding and investment policies to achieve the Plan's goals of secure benefits for members and stable contribution levels is notable.

Establishing a relationship between the policies creates a longer-term perspective for managing Plan assets and helps the Commission manage risk and ensure the Plan's financial stability. This process is a highly-disciplined, professional and leading-edge approach. By adopting this approach, MEPP is at the forefront of the pension industry.

As part of its strategic business plan the MEPC, through a survey of members and employers, solicited feedback on service delivery, Plan provisions, communications and expectations. The survey results indicated MEPP is well run and clearly valued by members. Eckler Ltd., a firm contracted to administer the survey will compile and report summary information to the Commission early in 2011 and the results will be used in strategic planning.

Two contribution rate increases have been phased-in over two years. The first contribution rate increase was effective January 1, 2010, the second rate increase occurred January 1, 2011. These member contribution rate increases are matched by employers.

This annual report features a new design to be closer to other pension industry reporting, to present information so it is more easily understood, and to be visually aligned with existing Plan communication materials.

I am pleased to present the 2010 Annual Report of the Municipal Employees' Pension Plan.

B. Ozirny

Bonnie Ozirny
Chair

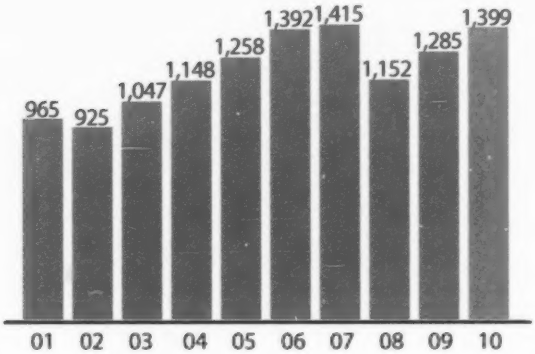
Financial Highlights

(as at March 31, 2010)

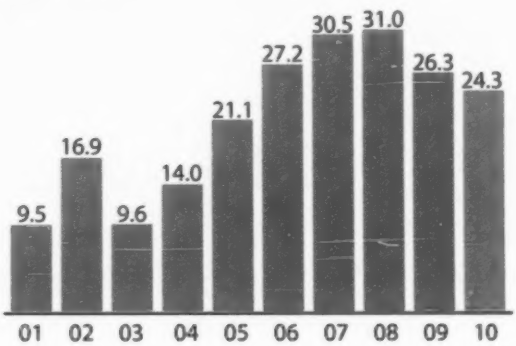
MEPP Member

City of Estevan

Total Assets ($ millions)



Transfers, Refunds & Termination Payments ($ millions)



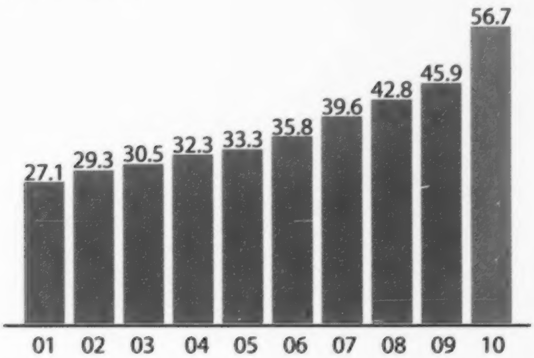
Total MEPP Fund Investment Performance (%)										
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Total Fund Real Return	10.0	14.5	(16.2)	4.2	13.6	12.1	11.4	14.9	(2.1)	2.6
Benchmark	10.1	15.5	(17.7)	3.3	12.9	10.6	9.8	14.5	(6.1)	(3.2)
Rolling 4-year Average Returns (%)										
Total Fund Real Return	2.4	3.2	2.7	10.3	13.0	8.9	6.5	6.2	5.7	8.9
Benchmark	1.9	2.7	1.7	9.3	12.0	6.9	3.4	2.5	2.3	6.4

Total Assets Approximately
$1.4 billion

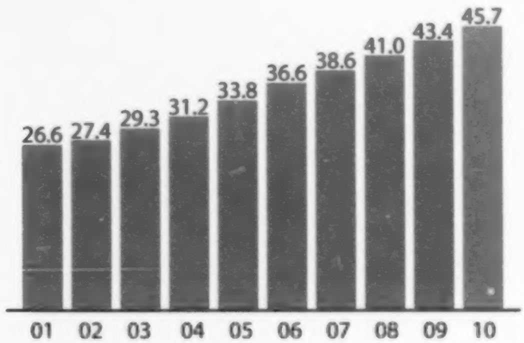
Net Contributions
$56.7 million

Total Pension Payroll
$45.7 million

Total Contributions & Transfers-in ($ millions)



Pension Payroll ($ millions)



Comparative Investment and Administration Costs (000s)										
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Administrative Costs	3,786	3,654	3,162	2,822	2,540	2,328	2,051	2,643	2,660	2,068
Custodial fees	155	167	210	207	128	131	128	164	95	96
Investment fees	4,516	4,828	6,112	3,906	3,237	2,708	2,296	2,001	1,996	1,767
Totals	**8,457**	**8,649**	**9,484**	**6,935**	**5,905**	**5,167**	**4,475**	**4,808**	**4,751**	**3,931**

Plan Profile

Public Employees Benefits Agency
Information Technology

The Plan holds approximately $1.4 billion in total assets. MEPP's membership consists of more than 17,000 members and 4,000 pensioners.

The Municipal Employees' Pension Plan (MEPP) is a 'defined benefit' plan. Pensions are based on a formula. Pension, disability, death and termination benefits are provided for all eligible members. The formula is based on highest average salary, pensionable service and the accrual rate in effect during the years of service. Members contribute a fixed percentage of salary. Employers match these contributions.

The amount of pension a member will receive is not directly related to investment returns. An adequate level of contributions and positive investment returns are necessary to secure the Plan's ability to pay benefits.

Under normal retirement rules, members may retire and receive a pension with no reduction if they are 65 years of age or if their age plus eligibility service equal at least 80 years. Members may retire and receive a reduced pension if they have reached age 55 and have at least 15 years of eligibility service.

Designated firefighters and police officers may receive an unreduced pension if their age plus eligibility service equal at least 75, they are 55 years of age, or have at least 25 years of eligibility service. These members may retire and receive a reduced pension if they have reached age 45 and their age plus eligibility service equal at least 70.

MEPP's history begins in the 1940s. Initially, the Rural Municipal Secretary Treasurer's Superannuation Plan was established in 1941. In 1949, the Urban Employees' Superannuation Plan was established. In 1959, these two plans joined to form the Municipal Employees' Superannuation Plan, which became the current plan in 1973.

MEPP is registered under the *Income Tax Act* (Canada) and is governed by *The Municipal Employees' Pension Act* and related Regulations, and *The Pension Benefits Act, 1992* and related Regulations.

The Plan holds approximately $1.4 billion in total assets. MEPP's membership consists of more than 17,000 members and 4,000 pensioners.

Municipal Employees' Pension Commission

The Municipal Employees' Pension Commission (the Commission) administers MEPP. The Commission has the fiduciary responsibility for administering MEPP and managing the investment activities in the best interests of all MEPP members.

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The Commission has 10 members, five appointed on behalf of participating employers and five on behalf of employees. The full term of office for Commission members is four years. A member may be appointed for two full terms. Each year the Commission members elect a Chair and a Vice-Chair. The Chair and Vice-Chair are elected for a one-year term. At December 31, 2010, the Commission was composed of the members listed in *Table 1.1*.

Municipal Employees' Pension Commission Members at December 31, 2010

Name	Position	Appointing Body
Ralph Paquin	Chair	The Saskatchewan Association of School Business Officials
Bonnie Ozirny	Vice-Chair	Saskatchewan School Boards Association
Earl Braun	Member	Associations Representing Designated Police Officers and Firefighters
Jim Hallick	Member	The Saskatchewan Association of Rural Municipalities
Allan Johnson	Member	Regional Colleges/Regional Libraries
Betty Moleski	Member	Trade Unions representing employees who are members of the Plan
Orrin Redden	Member	The Urban Municipal Administrators' Association of Saskatchewan
Kevin Ritchie	Member	The Rural Municipal Administrators' Association of Saskatchewan
Ray Sass[1]	Member	Saskatchewan School Boards Association
Roland Zimmer	Member	The Saskatchewan Urban Municipalities Association

[1] *Ray Sass' term of appointment started March 1, 2010.*

Table 1.1

The Commission's Mission:

To oversee and direct the administration of the Plan and manage its assets in the best interests of members.

The Commission's Goals:

- Provide customer-oriented communications and service: Plan members, employers, unions, the sponsor and other stakeholders have access to pension services and information which meet their needs.
- Maintain the financial integrity of the Plan.
- Plan Governance: The Commission strives to demonstrate leading practices of pension plan governance.
- Accountability: Performance of the Plan and the Commission's service providers is managed, measured and reported.

The Commission's Values:

- Accountability: We are accountable to the members and the stakeholders of MEPP for our administration of the Plan. We operate in a transparent manner.
- Professionalism: We strive for excellence in our administration of MEPP by being diligent and making informed decisions.
- Integrity: As trustees of the Municipal Employees' Pension Fund we hold ourselves to the highest standards of integrity. We strive to act always with honesty and in a manner worthy of the trust our members have placed in us.
- Fairness: We administer MEPP in the best interests of all members of the Plan. We strive to ensure that our decisions are equitable for all Plan members by adhering to decision making that is fair and open-minded. Our actions are courteous, considerate and responsive.

Attendance

The Commission met nine times in 2010. *Table 1.2* shows the number of meetings each Commission member attended.

Name	Number of Meetings Attended
Earl Braun	9
Ray Sass[1]	3
Jim Hallick	9
Allan Johnson	9
Betty Moleski	9
Bonnie Ozirny	9
Ralph Paquin	9
Orrin Redden	8
Kevin Ritchie	8
Roland Zimmer	9

[1] *Ray Sass' term of appointment started March 1, 2010.* *Table 1.2*

Education

The Commission has an education program for Commission members. The purpose of the program is to ensure Commission members possess a sound knowledge and understanding of pension related issues. The Commission budgets $5,000 per year for each Commission member for registration fees. Other expenses are reimbursed at rates determined by the Commission. *Table 1.3* lists the education events attended by Commission members to March 31, 2010.

Seminars, Courses and Other Events Attended by Board Members in 2010

Commission Member	Educational Events Attended	Registration Fees (Total)
Earl Braun	▸ Annual Pension Information Session ▸ CPBI[1] Forum 2010 ▸ Canadian Investment Institute Conference	$2,255
Jim Hallick	▸ Annual Pension Information Session ▸ ATMS[2] Part 2 ▸ Canadian Investment Institute Conference ▸ CPBI Presentation	$2,990
Allan Johnson	▸ Greystone Annual Dinner ▸ CPBI Presentation ▸ The Future of Pension Policy ▸ CPBI Presentation ▸ Annual Pension Information Session ▸ CPBI Forum ▸ ATMS Part III ▸ Canadian Investment Institute Conference ▸ CPBI Presentation ▸ Canadian Employee Benefits Conference	$4,584
Betty Moleski	▸ Annual Pension Information Session ▸ ATMS Part II ▸ Canadian Investment Institute Conference	$2,515
Bonnie Ozirny	▸ Annual Pension Information Session ▸ Canadian Investment Institute Conference ▸ Canadian Public Sector Pensions and Benefits Conference ▸ Canadian Employee Benefits Conference	$3,995
Ralph Paquin	▸ Annual Pension Information Session ▸ Canadian Investment Institute	$1,605
Orrin Redden	▸ Annual Pension Information Session ▸ CPBI Forum	$475
Kevin Ritchie	▸ Annual Pension Information Session ▸ ATMS Part II	$1,475
Ray Sass	▸ Annual Pension Information Session ▸ Foundations for Trustees ▸ Foundations for Trustees II ▸ Canadian Employee Benefits Conference	$2,755
Roland Zimmer	▸ Annual Pension Information Session ▸ CPBI Forum ▸ ATMS Part III ▸ ATMS Part IV	$3,190

[1] Canadian Pension and Benefits Institute
[2] Advanced Trustee Management Standards

Table 1.3

Contracted Services

The Commission is ultimately responsible for the Plan's administration, communication and investment activities. To discharge these responsibilities, the Commission uses the services of various organizations.

The Commission contracts with the Public Employees Benefits Agency (PEBA) to provide administrative services for the Plan. PEBA is part of the Ministry of Finance, Government of Saskatchewan, and administers a wide range of pension and benefits plans.

Under contract with the Commission, PEBA:

- Provides pension estimates, estimates on break downs of spousal relationships and transfer values for members wishing to transfer into MEPP from other pension plans;
- Provides ongoing communications to members and employers through newsletters, bulletins,workshops and online services;
- Prepares annual member statements by the end of March of each year;
- Calculates termination, pension and death benefits;
- Prepares information to members regarding significant life events that affect Plan membership, such as termination, death and the breakdown of spousal relationships;
- Accounts for all investment transactions;
- Collects members' and employers' contributions; and
- Provides executive management services to the Commission.
- Monitoring of investment performance;
- Communications with external investment managers and investment consultants;
- Research;
- Compliance monitoring; and
- Fund rebalancing.

PEBA is responsible for ensuring that all transactions are made in accordance with *The Municipal Employees' Pension Act*, *The Pension Benefits Act, 1992*, and their related regulations.

The Commission retains RBC Dexia Investor Services Trust as the Plan custodian and Mercer Canada Ltd. as the investment consultant. The Commission also retains the eight investment managers listed in *Table 1.10* on page 26 of this report.

Plan Expenditures and Statistics

21.8 thousand plan members **46.3** average age of active members **4.3** thousand pensioners

Pension Payments

In 2010, MEPP made monthly pension payments to 4,369 pensioners, paying approximately $45.7 million.

PEBA's service objectives are to ensure that all payments are made by their due dates and that all supplemental increases for pensioners are processed on a timely basis. PEBA met these objectives in 2010.

The number of member retirements in 2010 is shown in *Table 1.4*.

Retirement Comparisons		
	2010	**2009**
Normal Retirement	77	49
Early Retirement	139	110
Postponed Retirement	4	2
Temporary Retirement	11	12
Total	**231**	**173**

Table 1.4

Plan Membership

In 2010, Plan membership increased for active members and pensioners but decreased for inactive members as is shown in *Table 1.5*.

Plan Member Comparisons		
	2010	**2009**
Active	13,623	13,304
Inactive	3,852	4,191
Pensioners	4,369	4,205

Table 1.5

Income Allocation

In 2010, the Commission allocated interest to members' accounts at the rate of 9.08% for the year.

Supplemental Increases for Pensioners

No supplemental increases were applied in 2010.

Operating Expenditures

Table 1.6 on page 14 shows plan operating expenditures for the year ended December 31, 2010.

Administration Expenses (000s)		
	Total Cost	(%)
Administration costs	$3,786	44.8
Custodial fees	155	1.8
Investment consultant fees	262	3.1
Investment management fees		
Global Infrastructure Partners Fund - C, LP	808	9.5
Greystone Managed Investments Inc.	1,163	13.8
Foyston, Gordon & Payne Inc.	221	2.6
Brandes Investment Partners, LP	698	8.3
BlackRock Asset Management Canada Ltd.	106	1.3
Snyder Capital Management, LP	450	5.3
Pareto Investment Management Ltd.	401	4.7
Steel River Infrastructure Fund North America, LP	407	4.8
	$8,457	**100.0**

Table 1.6

Active Employers

At December 31, 2010, there were 721 employers participating in the Plan.

The distribution of employers by employment sector is shown in *Figure 1.1*.

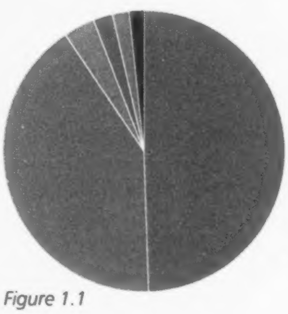


Figure 1.1

49.7% Towns & Villages (358)
41.0% Rural Municipalities (296)
3.6% School Divisions & Boards (25)
2.2% Other (17)
2.1% Regional Colleges & Libraries (15)
1.4% Cities (10)

Active Members by Employer

The distribution of the Plan's active members by employer is shown in *Figure 1.2*.

The number of active members illustrated in *Figure 1.2* differs from the total active members in *Table 1.5* on page 13 because some members work for more than one employer.

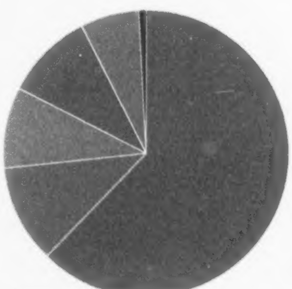


Figure 1.2

62.4% School Divisions & Boards (8,699)
11.1% Towns & Villages (1,542)
9.2% Cities (1,282)
9.8% Rural Municipalities (1,360)
6.7% Regional Colleges & Libraries (930)
0.8% Other (106)

PEBA reports measurement against standards to the Commission quarterly. *Table 1.7* and *Table 1.8* provide measurement results for the 2009-2010 year.

PEBA Service Standards January 1, 2010 to December 31, 2010				
	Completed	**Number that Meet or Exceed Standard**	**% that Meet or Exceed Standards**	***Standard (Business Days)**
Statement on Termination (Option Letter)	1,265	1,243	98.3	30
Statement on Death (Active/Deferred) (Option Letter)	30	30	100.0	10
Statement on Death (Pensioners) (Option Letter)	54	51	94.4	10
Payments (includes on termination and death)	1,565	1,493	95.4	10
Payment of New Retirements	215	215	100.0	1 Month
Pension Estimates (Retirement Option Letter)	367	366	99.7	15
Marriage Breakdown Calculations	41	40	97.6	15
Purchase of Service	32	32	100.0	30
Portability Transfer Value	7	7	100.0	30
Total	**3,576**	**3,477**	**97.2**	

Table 1.7

PEBA Periodic Requirements January 1, 2010 to December 31, 2010				
	Completed	**Number that Meet or Exceed Standard**	**% that Meet or Exceed Standards**	***Standard (Business Days)**
Annual Member Statement	1	1	100.0	75
Budget Variance Reporting	4	4	100.0	Quarterly
Proposed Annual Budget	1	1	100.0	Annually
Performance Measurement	4	4	100.0	Quarterly
Decisions Affecting Stakeholders	0	0	n/a	1 Month
Newsletter (*Mepp Matters*)	2	2	100.0	Semi-annually
Total	**12**	**12**	**100.0**	

Table 1.8

* Standard is set within the contract between the Commission and PEBA

Strategic Business Plan

The strategic business plan has been developed within the context of the Plan's values, mission and goals.

In May 2010, the Commission reviewed and amended its three-year strategic business plan for the period 2009 to 2011.

The strategic business plan sets out goals for the planning period in four major categories:

1 Customer Oriented Communications and Service	2 Maintain the Financial Integrity of the Plan	3 Plan Governance	4 Accountability
The Commission is determined to identify, assess and, where appropriate, implement opportunities to add value to the services the Plan provides to its members.	The Commission is committed to achieving the needs of members and employers through affordable, sustainable, Plan benefits and services.	The Commission strives to demonstrate leading practices of pension plan governance.	[illegible]

The strategic business plan was developed as part of the Commission's comprehensive governance process, which includes regular strategic business planning and risk management planning. It was developed within the context of the Plan's purpose, mission and goals and the Commission's values of accountability, professionalism, integrity and fairness. The new strategic business plan considers a number of internal and external factors.

This annual report will provide reporting for the strategic initiatives completed in 2010, other activities accomplished in 2010, and activities planned for implementation/completion in 2011 under the updated strategic plan.

Strategic Initiatives

1. Customer Oriented Communications and Service

The Commission objectives:

- Support member understanding of the Plan, including individual member benefits and responsibilities.
- Provide relevant, timely and accurate information which is easy to understand.
- Support participating employers.
- Maintain an up-to-date suite of services that meet evolving member needs.

The Commission has made considerable progress with respect to this goal, including:

- Implementing a stakeholder consultation process.
- Providing members and employers with access to a Retirement Information Consultant and a Customer Focus Coordinator to improve the Plan's service delivery.
- Providing additional online forms for employers and members.
- Delivering retirement information sessions.
- Developing and implementing increased information for employers, including employer bulletins, a client contact plan, and updates to the employer administration guide.

Activities planned and accomplished in 2010

Develop and implement communication tools that emphasize the value of the Plan.

- Under this initiative a number of activities that combined the graphic design, update of information and highlighting of the value message were more prominently displayed in materials. This was undertaken in booklets, bulletins, the *MORe* retirement planner, member statements, and the website.

Undertake a membership survey.

- In August, a meeting with Eckler Ltd., the vendor assisting with the survey established timelines began the development of the employer and online survey. An employer bulletin was prepared and distributed in October to provide notice of the survey and online registration. A link to an online version of the survey was placed on the website in November and survey deadline was set for mid-December.

Assess the feasibility of using electronic media to enhance efficiency in providing information to members.

- The Commission received a recommendation at its September meeting that no action be taken at this time on using electronic media. The recommendation was supported by a cost/benefit analysis undertaken to determine the feasibility of proceeding with this initiative.

Activities planned for 2011

- Continued development and implementation of communication tools that emphasize the value of the Plan.
- Compile and analyze the results or the membership survey.

2. Maintain the Financial Integrity of the Plan

The Commission objectives:

- Maintain Plan funding that will be able to pay promised benefits in full as they come due while keeping contribution rates stable over the long-term.
- Ensure Plan design includes benefits that meet the needs of all stakeholders.
- Identify, assess and manage the Plan's financial risks.

The Commission has made considerable progress with respect to this goal, including:

- Development of a formal funding policy.
- Addition of infrastructure as an asset class.

Activities planned and accomplished in 2010

Link objectives of the funding and investment policies and develop a plan for managing identified risks.

- The Commission received the results of an asset-liability study and approved a new funding policy that links the funding and investment policies in March 2010. The Commission approved a plan to implement the transition to a new funding and investment model in May.

Activities planned for 2011

- Implementation of the new funding and investment model.
- Assess Plan provisions and funding implications based on member feedback, funding policy and investment policy study and the results of the funding and solvency valuations.

Decision-making Thresholds

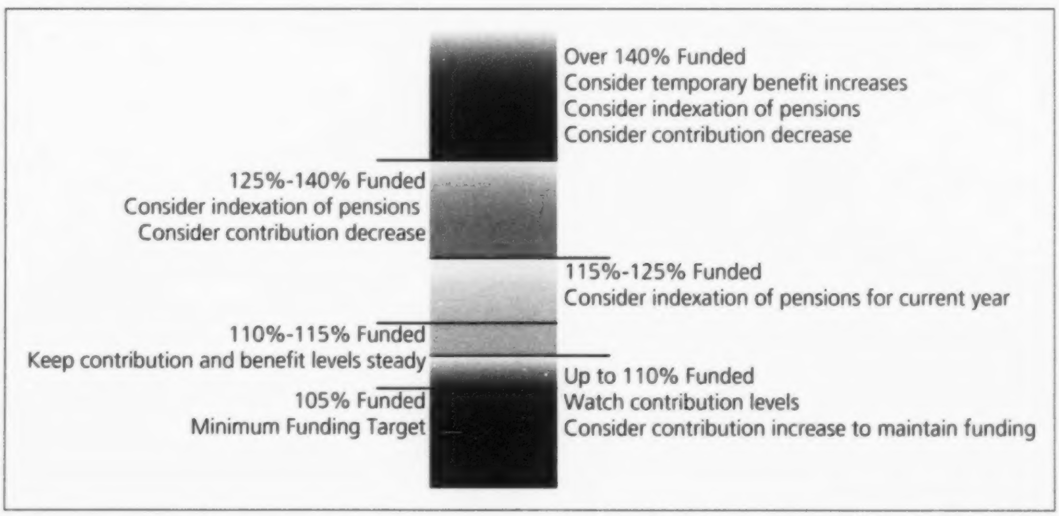


Figure 1.3

3. Plan Governance

The Commission objectives:

- The Commission demonstrates that it is a responsible fiduciary.
- Ensure the Plan's business model, including the roles and responsibilities of both the Commission and contracted service providers, is consistent with the Plan's strategy and operations.

The Commission has made considerable progress with respect to this goal, including:

- The creation of a Governance Manual.
- Enhancement of Commission education and orientation programs.
- The establishment of service standards with the Plan's administrator.

Activities planned and accomplished in 2010

Review Commission practices, areas of focus, and roles and responsibilities. Complement Commission self-assessments with a review of leading practices.

- The Commission received the results of a formal governance audit at its March 2010 meeting. The Commission updated it Strategic Business Plan to address the recommendations contained in the governance audit.
- A consultant presented the results of a Canadian private-sector pension plan survey to the Commission at its May meeting. The Commission received the results of the Canadian public-sector pension plan survey at its October meeting. The report provides seven "Issues for Consideration" and recommended courses of action that the Commission can take to improve the overall operation of the Commission.

Activities planned for 2011

- Undertake an analysis of the recommendations provided by the 2010 Fiduciary Benchmarking Study for Canadian Public Retirement Plans, and determine what improvements the Commission should make in the overall operation of the Commission.
- Develop a paper on the roles and responsibilities of the Commission and its service providers.

4. Accountability

The Commission objectives:

- Understand stakeholder and member information requirements and provide them with information regarding the Plan's strategy, operations and values.

- Provide relevant and timely reporting on the performance of the Plan, the Commission and service providers.

The Commission has made considerable progress with respect to this goal, including:

- Annual self-assessments completed by the Commission.

- The development and implementation of a strategic plan.

Activities planned and accomplished in 2010

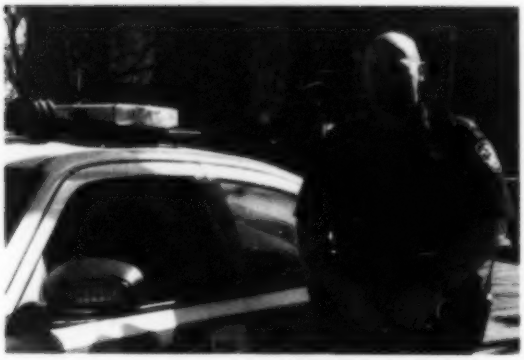
Enhance performance reporting for the Plan, the Commission and service providers.

- This initiative was deferred to 2011.

Activities planned for 2011

- Enhance performance reporting for the Plan, the Commission and service providers.
  - Development of the key components of enhanced reporting will begin in mid-2011.

Risk Management



MEPP Designated Member
Constable, Police Service

The Commission is responsible for managing risks that could affect the operation of the pension plan and the Plan's members and other stakeholders. Through its strategic planning and risk management process, the Commission identifies and evaluates such risks, and ensures appropriate strategies are in place to manage risk.

Within its mandate, the Commission is responsible for managing risks that could affect the operation of the pension plan, the Plan's members and other stakeholders. The risk management process provides the Commission and its administrator with the means to identify and evaluate the foreseeable risks in the Plan. Supporting strategies are developed to manage or mitigate these risks.

The Risk Management Plan and its annual review ensure that a regular, documented process is in place that provides rationale for the Commission's risk management decisions. To assist in the identification and assessment all foreseeable risks in the Plan, the Commission has identified the following key broad-based risks of the Plan:

- Strategic Risk encompasses the potential risks as they relate to communication and service delivery, plan design suitability, plan reputation, plan governance and accountability.
- Financial Risk deals with the investment, funding, and benefit policies, plan design costs, and demographic considerations.
- Regulatory Risk ensures Plan compliance with legislation, fiduciary obligations and the legal requirements of pension plan management.
- Operational Risk encompasses the strategies in place to handle operational emergencies and compliance with governance policies.

The Commission has developed strategies to manage the identified risks, which are evaluated in the Risk Management Review on an annual basis. In 2010, the Risk Management Review affirmed that all the risk areas identified for the Plan were reviewed and the strategies to manage these risks were implemented. A summary of the risk activities undertaken is provided in the following section, "Activities planned and accomplished for 2010." A Risk Management Plan is also prepared for the upcoming year. A summary of risk activities to be carried out in 2011 is provided in the section, "Activities planned for 2011."

The complete versions of the 2010 Risk Management Review and 2011 Risk Management Plan are available from PEBA.

Activities planned and accomplished in 2010

The Commission will review the results of a benchmarking survey that began in late 2009.

- The results of the 2009 Canadian Pension Governance Benchmark Study were reported to the Commission at its May 2010 meeting. Another survey began in early 2010. The results of the 2010 Canadian Pension Governance Benchmark Study for Public Retirement Plans were reported to the Commission at its October meeting.

The Commission will review the results of a governance audit that began in late 2009.

- The results of the governance audit were reviewed at the Commission's March meeting, and several recommendations were incorporated into the Commission's Strategic Business Plan.

The Municipal Employees' Pension Act *states the criteria and process for the appointment of members to the Municipal Employees' Pension Commission. The composition of the Commission is reviewed every five years starting September 1, 2010.*

- A review of the composition of the Commission began in late 2010. Letters and e-mails were sent to stakeholders informing them of the review. Information about the Commission and the review was posted to the PEBA website.

In late 2009, the Commission undertook an asset-liability study of the Plan in order to further enhance the link between its funding and investment policies. As result of that study, recommendations were brought forward to the Commission in regard to a new Funding Policy and amendments to its SIP&P.

- Recommendations regarding the Funding Policy and SIP&P were presented to the Commission at its January 2010 meeting, and the recommendations were approved at its meeting in March 2010. At its June 2010 meeting the Commission approved a revised SIP&P. Significant changes included linking the funding and investment policies, and increased due diligence and compliance requirements.

Continued development of a Policy Manual is to occur in 2010.

- Throughout 2010, the Commission reviewed sections of its Policy Manual. The following policies were amended:
  - Funding
  - Risk Management

- The following policies were approved for inclusion in the Policy Manual:
  - Annuity Indexation (formerly part of the Funding Policy)

Periodic evaluation by the Commission's administrator of the performance of the custodian, actuary and investment consultant.

- The Commission evaluated the performance of its custodian in January and September and its actuary in November. The Commission engaged a new investment consultant in late 2010. The contract with the investment consultant was ratified in September 2010; therefore an evaluation was not carried out.

The Commission will continue to receive quarterly updates comparing actual expenditures versus budgeted amounts.

- The Commission received quarterly updates on its budget for the period ending December 2009, and for the periods ending March, June, and September 2010.

The Commission will continue to receive periodic updates of the initiatives identified in its Strategic Business Plan.

- The Commission received updates on its Strategic Business Plan at its January, April and September meetings.

The completed Periodic Checklist will be provided to the Commission on a semi-annual basis.

- PEBA provided the Commission with the final Periodic Checklist for 2009 in February 2010 and the interim Periodic Checklist for the first six months of 2010 in September 2010.

Activities planned for 2011

- The Commission's Strategic Business Plan contains initiatives that relate directly to the assessment of Plan provisions to ensure they meet the needs of Plan members. A membership survey was undertaken in late 2010. Once a review of the survey results and the Actuarial Valuation for the period ending December 31, 2010 are completed, an assessment of Plan provisions will be undertaken, if required.
- The Commission's Strategic Business Plan contains initiatives that relate directly to the management of communication risks. These initiatives include the development of value messaging for termination letters and pension commencement letters.
- The review of the composition of the Commission will be reported to the Ministry of Finance.
- The Commission will review recommendations on the provision of executive management services by PEBA.
- Work will continue on the implementing recommendations linking the funding and investment policies.
- Throughout 2011, PEBA will incorporate the International Organization of Standardization's recently published risk management principles and guidelines into the Plan's annual risk assessment process. The annual Risk Management Plan is based on the annual risk assessment.
- As part of a bi-annual review, service providers will be required to confirm their adherence to a code of conduct and conflict of interest policy, and to confirm that they have a Business Continuance Plan for their organizations.
- The Commission will continue to receive periodic evaluations by the Commission's administrator of the performance of the actuary, custodian and investment consultant.
- The Commission will continue to receive quarterly updates comparing actual expenditures versus budgeted amounts.
- The Commission will continue to receive periodic updates of the initiatives identified in its Strategic Business Plan.
- The completed Periodic Checklist will be provided to the Commission on a semi-annual basis.

Investments

Public Employees Benefits Agency

PEBA Staff

Trustees

As trustees of the Fund, the Commission is responsible for prudently investing the Fund's monies.

Investment Policy

In fulfilling its responsibility to prudently invest the Fund's assets, the Commission has adopted an investment policy for the Plan. This policy is set out in the Statement of Investment Policies and Procedures (SIP&P), which the Commission reviews annually.

The SIP&P contains guidelines for investment of Plan assets, and includes:

- Investment and risk philosophy;
- Asset mix and diversification policy;
- Rate of return benchmarks for each investment manager and for the Fund;
- Permitted and prohibited investments;
- Monitoring and control responsibilities;
- Selecting and terminating investment managers;
- Compliance reporting requirements; and
- Conflict of interest guidelines.

Investment Consultant

The Plan's investment consultant was Hewitt Associates for the first half of 2010. Consulting services were transitioned from Hewitt to Mercer by mid 2010. The investment consultant monitors the performance of the investment managers and reports the results to the Commission. The Commission paid consulting fees of $262,000 in 2010. As of December 31, 2010 the investment managers invested the portions of the portfolio shown in *Table 1.10*.

Fees Paid for Investment Services in 2010	
Investment Managers (total)	$4,254,000
Investment Consultant	262,000
Custodian	155,000
Total	**$4,671,000**

Table 1.9

Investment Managers

The Commission delegates responsibility for investing the Plan assets to professional investment managers. Each manager invests within a specific mandate, as outlined in *Table 1.10*. Investment managers were paid a total of $4,254,000 in 2010.

Asset Allocation by Investment Manager

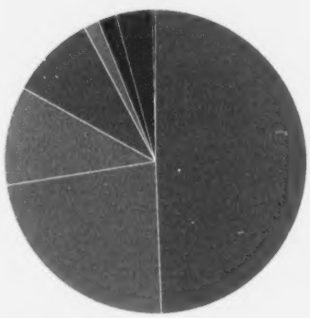


Figure 1.4

49.5%	Greystone Managed Investments Inc.
23.2%	BlackRock Asset Management Canada Ltd.
10.6%	Foyston Gordon & Payne, LP
9.0%	Brandes Investment Partners Fund
1.6%	Steel River Infrastructure Fund North American, LP
2.0%	Global Infrastructure Partners Fund
3.9%	Snyder Capital Management Inc.
0.2%	Pareto Investment Management Ltd.

Custodian

The Commission retains RBC Dexia Investor Services Trust as the custodian of the Plan. The custodian is responsible for:

- Safekeeping of assets;
- Collection of income;
- Settlement of investment transactions; and
- Recording and verifying investment transactions.

RBC Dexia received $155,000 in fees in 2010.

Investment Manager Mandates	
Investment Manager	**Mandate**
Steel River Infrastructure Fund North America, LP	Infrastructure
BlackRock Asset Management Canada Ltd.*	U.S. Equities, Canadian Bonds
Brandes Investment Partners, LP	Non-North American Equities
Foyston, Gordon & Payne Inc.	Canadian Equities
Global Infrastructure Partners Fund	Infrastructure
Greystone Managed Investments Inc.	Balanced, Real Estate
Pareto Investment Management Ltd.	Currency
Snyder Capital Management, LP	U.S. Equities

* Formerly Barclays Global Investors Canada Ltd.

Table 1.10

Investment Objectives

Total Fund

The long term goal of the total Fund is to achieve a minimum annual rate of return of 4.5 per cent above inflation, as measured by the Consumer Price Index (CPI). The CPI is a measure of the average change over time in the prices of consumer goods and services. The Commission monitors and assesses this goal over the long term (10 years or more).

To achieve its goal, the Commission has established:

- A long-term strategic asset mix that is reflected by the Plan's benchmark (a standard against which performance is measured); and,
- An investment management structure consisting of one or more investment managers in each major asset class.

The Commission delegates day-to-day responsibilities for managing assets to the Plan's investment managers. Subject to the Plan's SIP&P, the managers may hold, buy or sell investments to achieve performance objectives set by the Commission for their mandates. The Fund's main objective is to exceed the return of the benchmark portfolio, net of investment management fees, over a rolling four-year period.

The Fund structure includes a balanced fund manager and a number of managers that specialize in various asset classes. The primary objective for the balanced fund manager is to earn a return, net of investment management fees, that exceeds the manager's benchmark portfolio return. A secondary objective is to earn returns above the benchmark index in each asset class within the balanced fund.

The returns of specialty managers are monitored for performance against the relevant asset class benchmarks. Active managers are tasked with exceeding a benchmark, while passive managers are engaged to match a benchmark.

MEPP Asset Mix

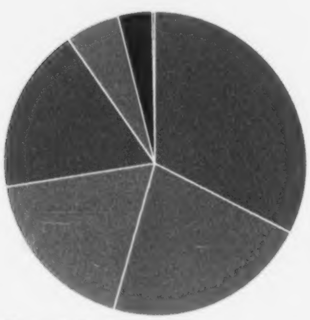


Figure 1.5

32.5%	Fixed Income
22.0%	Canadian Equities
18.1%	U.S. Equities
17.7%	Non-North American Equities
6.0%	Real Estate
3.5%	Infrastructure
0.2%	Cash Currency Forward

Plan Benchmarks by Asset Class

Asset Class	Class Market Index	Minimum Investment	Benchmark Portfolio	Maximum Investment
Canadian Equities	S&P/TSX CPMS Cap 10	14%	**19%**	28%
U.S. Large Cap Equities	S&P 500 & S&P 500 Hedged	10%	**14%**	18%
U.S. Small/Mid Cap Equities	Russell 2500	2%	**4%**	6%
Non-North American Equities	MSCI EAFE	14%	**18%**	22%
Canadian Bonds	DEX Universe Bond	20%	**33%**	52%
Infrastructure	Consumer Price Index plus 2%	0%	**5%**	8%
Real Estate	Investment Property Databank	3%	**5%**	8%
Short-term Investments	91 Day T-Bills	0%	**2%**	20%
			100%	

Table 1.11

Fund Performance

Investment Fund Performance

The Commission reviews the performance of the Fund in terms of the performance of a benchmark portfolio over rolling four-year periods. The performance of individual investment managers is measured against the objectives set for their individual portfolios.

The Fund had a return of 10.0% for the year ended December 31, 2010, underperforming the benchmark by 0.1 percentage points. Over the past four years, the Fund had an annualized return of 2.4%, exceeding the benchmark by 0.5 percentage points.

MEPP	Benchmark	MEPP	Benchmark
10.0% 1-Year Return	**10.1%** 1-Year Return	**2.4%** 4-Year Return	**1.9%** 4-Year Return

Balanced Manager

The balanced mandate, actively managed by Greystone Managed Investments Inc. (Greystone), is compared to a blended benchmark. *Table 1.12* shows the balanced mandate benchmark indexes by asset class. Greystone's performance for each asset class it manages is included in the asset class analysis.

The balanced mandate provided a return of 10.1% in the year ended December 31, 2010, outperforming the benchmark by 1.4 percentage points. Over four years, the balanced mandate provided an annualized return of 3.6%, outperforming the benchmark by 0.8 percentage points.

Greystone - Balanced	Benchmark	Greystone - Balanced	Benchmark
10.1% 1-Year Return	**8.7%** 1-Year Return	**3.6%** 4-Year Return	**2.8%** 4-Year Return

Balanced Mandate Benchmarks by Asset Class

Asset Class	Class Market Index	Minimum Investment	Benchmark Portfolio	Maximum Investment
Canadian Equities	S&P/TSX CPMS Cap 10	18.0%	**24.0%**	30.0%
U.S. Large Cap Equities	S&P 500 & S&P 500 Hedged	6.0%	**9.0%**	12.0%
Non-North American Equities	MSCI EAFE	14.0%	**18.0%**	22.0%
Canadian Bonds	DEX Universe Bond Index	25.0%	**45.0%**	65.0%
Short-term Investments	91 Day T-Bills	0.0%	**4.0%**	35.0%
Mortgages		0.0%	**0.0%**	8.0%
			100.0%	

Table 1.12

Canadian Equity Managers

The Plan's Canadian equity managers are Greystone and Foyston, Gordon & Payne Inc. (Foyston). Both are active managers and are measured against the S&P/TSX CPMS Cap 10. Their complementary management styles help ensure diversification of the Fund's investments.

In the year ended December 31, 2010, Greystone's Canadian equity component returned 17.9%, outperforming the benchmark by 0.3 percentage points. Over four years, Greystone underperformed the benchmark by 1.9 percentage points, achieving an annualized return of 2.1%.

In 2010, Foyston returned 16.8%, underperforming the benchmark by 0.8 percentage points. Foyston's four-year annualized return of 3.6% is 0.4% below the benchmark.

Greystone
17.9% 1-Year Return

Foyston
16.8% 1-Year Return

S&P/TSX CPMS Cap 10
17.6% 1-Year Return

Greystone
2.1% 4-Year Return

Foyston
3.6% 4-Year Return

S&P/TSX CPMS Cap 10
4.0% 4-Year Return

U.S. Equity Managers

The Plan's U.S. equity managers include Greystone, BlackRock Asset Management Canada Limited (BlackRock) and Snyder Capital Management, LP (Snyder).

Greystone is an active manager measured against the benchmark S&P 500. Managing U.S. large cap equities, Greystone realized a positive return of 13.7% in the year ended December 31, 2010, outperforming the benchmark by 4.7 percentage points. Greystone's four-year annualized return of -2.5% outperformed the benchmark by 2.2 percentage points.

Greystone
13.7% 1-Year Return

S&P 500
9.0% 1-Year Return

Greystone
-2.5% 4-Year Return

S&P 500
-4.7% 4-Year Return

U.S. Equity Managers

BlackRock manages passive, hedged U.S. equity investments and is measured against the hedged S&P 500 Index. BlackRock had positive tracking error of 0.5%, returning 14.1% for the year ended December 31, 2010. Over four years, BlackRock had positive tracking experience of just over 0.2% compared to the hedged S&P 500 Index.

BlackRock	S&P 500 Hedged	BlackRock	S&P 500 Hedged
14.1% 1-Year Return	13.6% 1-Year Return	-2.6% 4-Year Return	-2.8% 4-Year Return

Snyder actively manages the small and mid-cap U.S. equity portfolio. Snyder provided a return of 22.5% for the year ended December 31, 2010. This return outperformed the Russell 2500 index by 2.4 percentage points. Over four years, Snyder outperformed the benchmark by 2.4 percentage points.

Snyder	Russell 2500	Snyder	Russell 2500
22.5% 1-Year Return	20.1% 1-Year Return	0.7% 4-Year Return	-1.7% 4-Year Return

Non-North American Managers

The Plan's Non-North American investment managers include Greystone and Brandes Investment Partners, LP (Brandes). Their performance is measured against the MSCI EAFE.

Greystone and Brandes employ different management styles that complement one another, helping ensure diversification of the Fund's investments.

Greystone returned 3.3% in the year ended December 31, 2010, which outperformed the benchmark by 0.7 percentage points. Over four years Greystone provided a -5.4% return, outperforming the benchmark by 0.7%.

Brandes provided a -0.5% return for the year ended December 31, 2010, underperforming the benchmark by 3.1 percentage points. The four-year annualized return of -6.1% was equaling that of the benchmark.

Greystone	Brandes	MSCI EAFE
3.3% 1-Year Return	-0.5% 1-Year Return	2.6% 1-Year Return
-5.4% 4-Year Return	-6.1% 4-Year Return	-6.1% 4-Year Return

Real Estate Manager

Greystone is the manager for the real estate portfolio. Real estate provided a return of 8.3% for the year ended December 31, 2010. This return outperformed the estimated Investment Property Databank benchmark by 1.0 percentage points. Greystone's four-year annualized return was 7.8%, which is 1.3 percentage points above the estimated benchmark return for the same period.

During 2009, a transition from segregated real estate holdings to pooled fund holdings was undertaken. This transition was 95% completed in 2010.

Greystone	Investment Property Databank	Greystone	Investment Property Databank
8.3% 1-Year Return	7.3% 1-Year Return	7.8% 4-Year Return	6.5% 4-Year Return

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Bond Managers

The Plan's bond managers, Greystone and BlackRock, are compared with the DEX Universe Bond Index.

For the year ended December 31, 2010, Greystone outperformed this benchmark by 1.1 percentage points, providing a return of 7.8%. Greystone's four-year annualized return of 6.0% was 0.4 percentage points above the benchmark.

BlackRock, the Plan's passive bond manager, had a positive return of 6.7% for the year ended December 31, 2010. This represents positive tracking of 0.0 percentage points compared to the benchmark. BlackRock's four-year annualized return of 5.5% represents negative tracking of 0.1 percentage points when compared to the benchmark.

Greystone	BlackRock	DEX Universe
7.8% 1-Year Return	6.7% 1-Year Return	6.7% 1-Year Return
Greystone	BlackRock	DEX Universe
6.0% 4-Year Return	5.5% 4-Year Return	5.6% 4-Year Return

Currency Manager

Pareto is the Plan's currency manager. Their mandate is to actively manage currency risk to reduce the impacts of foreign currency exposures on the Plan. They also add value to the Plan by trading major currencies for financial gain. Pareto's performance is benchmarked against a passive 50% currency hedge.

For the year ended December 31, 2010, Pareto returned -0.1%, outperforming the benchmark by 1.5 percentage points.

Pareto	Benchmark*	Pareto	Benchmark
-0.1% 1-Year Return	-1.6% 1-Year Return	-0.2% 4-Year Return	-0.3% 4-Year Return

* *The benchmark for performance measurement purposes is the currency contribution to return of a passively managed hedge of 50 per cent applied to the Underlying Portfolio.*

Infrastructure Managers

The Plan is invested in two infrastructure funds; the Steel River Infrastructure Fund North America and the Global Infrastructure Partners Fund. The performance of both funds is compared to an absolute benchmark of 100% of the Canadian Consumer Price Index plus 2%. Both funds are currently in the initial investing phase which can take several years to complete. Consequently, a return for 2010 is unavailable. At December 31, 2010, the Plan had contributed approximately 67% of its capital commitment.

Management's Report

To the Members of the Legislative Assembly of Saskatchewan:

Administration of the Municipal Employees' Pension Plan is presently assigned to the Public Employees Benefits Agency of the Ministry of Finance. Management is responsible for financial administration, administration of funds and managing of assets.

The financial statements which follow have been prepared by management in conformity with Canadian generally accepted accounting principles. Management uses internal controls and exercises its best judgment in order that the financial statements fairly reflect the financial position of the Plan.

The Municipal Employees' Pension Commission reviews and approves the financial statements. In doing so, the Commission has had the opportunity to discuss the statements with management throughout the year.

The provision for annuity benefits and the accrued pension benefits are determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events and require approval by management.

The financial statements have been audited by Deloitte & Touche LLP whose report follows.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

Ann Mackrill
Director, Pension Programs
Public Employees Benefits Agency

Kathy Deck, CGA
Director, Financial Services
Public Employees Benefits Agency

Regina, Saskatchewan
March 18, 2011

Actuaries' Opinion

Eckler Ltd. was retained by the Municipal Employees' Pension Commission (the Commission) to perform actuarial valuations of the provision for annuity benefits and accrued pension benefits of the Municipal Employees' Pension Plan (the Plan) on an accounting basis as at December 31, 2009. Eckler Ltd. was further retained to extrapolate the results of this valuation to December 31, 2010.

The valuation and extrapolation were based on:

- Membership data provided by the Commission as at December 31, 2009;
- Asset data, provided by the Commission as at December 31, 2010;
- Methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- Assumptions about future events (economic and demographic) which were developed by management and Eckler Ltd. and are considered as management's best estimate of these events.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are not unreasonable, the Plan's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Plan.

We have tested the data for reasonableness and consistency with prior valuations and in our opinion the data is sufficient and reliable for the purposes of the valuation and the extrapolation. We also believe that the methods employed in the valuation and extrapolation and the assumptions used are, in aggregate, appropriate. Our opinions have been given and our valuations and extrapolation have been performed in accordance with accepted actuarial practice in Canada.

Doug Poapst

A. Douglas Poapst, FSA, FCIA
Eckler Ltd.

March 18, 2011

Municipal Employees' Pension Commission

Municipal Employees' Pension Plan

Financial Statements

Year ended December 31, 2010

Independent Auditors' Report

Deloitte.

To the Members of the Legislative Assembly of Saskatchewan:

We have audited the accompanying financial statements of the Municipal Employees' Pension Plan, which comprise the statement of net assets available for benefits, accrued pension benefits and surplus as at December 31, 2010, and the statements of changes in net assets available for benefits and changes in accrued pension benefits and provision for annuity benefits for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles for Treasury Board's approval, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Municipal Employees' Pension Plan as at December 31, 2010, its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

March 18, 2011
Regina, Saskatchewan

Municipal Employees' Pension Plan
Statement of Net Assets Available for Benefits, Accrued Pension Benefits and Surplus

Statement 1

As at December 31

(in thousands)

	2010			2009
	Defined Benefit	Retirement Annuities	Total	Total
ASSETS				
Investments (Note 3)				
Short term	$ 31,987	$ 561	$32,548	$17,880
Bonds	240,103	4,209	244,312	230,419
Equities	401,838	7,044	408,882	366,044
Infrastructure	53,813	943	54,756	46,815
Pooled funds	633,159	11,098	644,257	577,002
Real estate	3,768	66	3,834	19,131
	1,364,668	23,921	1,388,589	1,257,291
Accounts receivable				
Employees' contributions	1,652	-	1,652	1,449
Employers' contributions	1,652	-	1,652	1,449
Accrued investment income	2,553	45	2,598	2,583
Other receivables	186	3	189	16,046
	6,043	48	6,091	21,527
Due from General Revenue Fund (Note 5)	3,947	69	4,016	3,586
Cash	536	9	545	2,555
Total assets	1,375,194	24,047	1,399,241	1,284,959
LIABILITIES				
Accounts payable	2,155	39	2,194	1,767
Provision for annuity benefits (Statement 3, Note 9)	-	25,586	25,586	27,308
Total liabilities	2,155	25,625	27,780	29,075
NET ASSETS AVAILABLE FOR BENEFITS	1,373,039	(1,578)	1,371,461	1,255,884
Accrued pension benefits (Statement 3, Note 8)	1,353,314	-	1,353,314	1,204,766
SURPLUS (DEFICIT)	$ 19,725	$(1,578)	$ 18,147	$ 51,118

(See accompanying notes to the financial statements)

Municipal Employees' Pension Plan
Statement of Changes in Net Assets Available for Benefits

Statement 2

Year Ended December 31

(in thousands)

	2010 Defined Benefit	2010 Retirement Annuities	2010 Total	2009 Total
INCREASE IN ASSETS				
Investment income				
Interest	$18,507	$347	$18,854	$19,393
Pooled funds	7,356	138	7,494	7,646
Dividends	11,003	206	11,209	12,179
Infrastructure	3,037	57	3,094	528
Real estate	373	7	380	2,396
	40,276	755	41,031	42,142
Change in fair value of investments	93,019	1,744	94,763	124,443
Contributions				
Employee contributions	28,134	-	28,134	22,922
Employer contributions	27,987	-	27,987	22,214
Reciprocal transfers in	551	-	551	641
Arrears contributions and interest	55	-	55	29
Inter-fund transfer	(64)	64	-	-
	56,663	64	56,727	45,806
Net decrease in provision for annuity benefits (Statement 3, Note 9)	-	1,722	1,722	1,290
Total increase in assets	189,958	4,285	194,243	213,681
DECREASE IN ASSETS				
Transfers and refunds (Note 7)	17,604	-	17,604	19,674
Benefit payments (Note 7)	6,667	-	6,667	6,628
Defined benefit payments	41,959	-	41,959	39,531
Annuities	-	3,700	3,700	3,856
Investment transaction costs	266	13	279	328
Administration costs (Note 11)	3,973	75	4,048	3,770
Investment and custodial fees (Note 11)	4,328	81	4,409	4,879
Total decrease in assets	74,797	3,869	78,666	78,666
INCREASE IN NET ASSETS	115,161	416	115,577	135,015
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	1,257,878	(1,994)	1,255,884	1,120,869
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$1,373,039	$(1,578)	$1,371,461	$1,255,884

(See accompanying notes to the financial statements)

Municipal Employees' Pension Plan

Statement 3

Statement of Changes in Accrued Pension Benefits and Provision for Annuity Benefits

Year Ended December 31

	(in thousands) 2010	2009
ACCRUED PENSION BENEFITS, BEGINNING OF YEAR	$1,204,766	$1,185,760
Increase in accrued pension benefits		
Interest on accrued benefits	72,335	76,848
Benefits accrued	67,370	58,505
Transfer-in	551	641
Net experience loss	4,147	-
Change in assumptions	70,439	-
	214,842	135,994
Decrease in accrued pension benefits		
Transfers, refunds and defined benefits paid	66,230	65,832
Experience Gain	-	9,561
Change in assumptions	-	41,328
Transfer to provision for annuities	64	267
	66,294	116,988
ACCRUED PENSION BENEFITS, END OF YEAR (Note 8)	$1,353,314	$1,204,766

	2010	2009
PROVISION FOR ANNUITY BENEFITS, BEGINNING OF YEAR	$27,308	$28,598
Increase in provision for annuity benefits		
Interest on annuity benefits	1,529	1,742
New annuities purchased	64	267
Change in assumptions	408	771
	2,001	2,780
Decrease in provision for annuity benefits		
Annuities paid	3,700	3,856
Experience gain	23	214
	3,723	4,070
PROVISION FOR ANNUITY BENEFITS, END OF YEAR (Note 9)	$25,586	$27,308

(See accompanying notes to the financial statements)

Municipal Employees' Pension Plan
Notes to the Financial Statements

December 31, 2010

1. Description of the Municipal Employees' Pension Plan

General

The Municipal Employees' Pension Plan (the "Plan") is comprised of three components: defined benefit, money accumulation benefit and retirement annuities. The following description of the Plan is a summary only. For more complete information, reference should be made to *The Municipal Employees' Pension Act*.

The Municipal Employees' Pension Act (the "Act") provides authority for the Plan. The Act directs that all allowances, payments and refunds under the Act shall be payable out of the Plan in the manner provided in the Act together with all benefits granted under a former Act. The Municipal Employees' Pension Commission (the "Commission") is responsible for holding in trust and investing the monies of the Plan. The Commission's composition and authority to administer the Plan are provided in Section 7 of the Act.

The Plan is registered under *The Pension Benefits Act, 1992* and is required to provide valuations every three years as to whether the Plan has sufficient assets to meet its accrued benefit obligations on an on-going basis as well as on a hypothetical wind-up basis. These valuations are filed with the Superintendent of Pensions (the "Superintendent"). If the Plan has insufficient assets, the Act outlines the steps to address the shortfall of assets. The Commission filed its December 31, 2009 valuations with the Superintendent which indicated the Plan is fully funded.

Defined Benefit Component

The Defined Benefit Component became effective July 1, 1973. This Defined Benefit Component is mandatory for permanent employees and optional for some non-permanent employees.

A. Funding

Employee contributions are 6.4% of salary for general members and 8.75% for police officers and firefighters. Employee contributions are matched by the employer. There are some employee contributions that are not matched by employer, these contributions consist of transfers from other plans and purchase of prior services.

B. Pensions

Employees receive a pension at age 65 for general members and at age 60 for police officers and firefighters, for each year and fractional year of contributory service in the Plan prior to retirement that is determined as:

For service earned before 1990 and service earned after 2000 but before 2006, the number of years of contributory service during these periods times the greater of:

a) 1.8% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (2% for police officers and firefighters); or

b) i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

For all other service, the number of years of contributory service for the period times the greater of:

a) 1.5% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7% for police officers and firefighters); or

b) i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

Members who commenced employment on or after January 1, 1993:

For service earned after 2000 but before 2006, the number of years of contributory service during this period times 1.8% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (2% for police officers and firefighters).

For all other service, the number of years of contributory service for the period times 1.5% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7% for police officers and firefighters).

C. Retirement

Normal retirement is at age 65 for general members and age 60 for police officers and firefighters. Members may retire earlier under certain conditions.

The Plan also provides benefits in the event of termination of employment, death or disability.

D. Surplus

Any surpluses arising in the Plan can be utilized at the discretion of the Commission.

Money Accumulation Component

The Money Accumulation Component consists of members who made contributions to the Money Accumulation Component in effect prior to July 1, 1973. Members may retire and purchase an annuity at age 65. Members may retire earlier under certain conditions. Upon retirement a member can purchase an annuity from either the Plan or a private insurer based on employee and employer contributions together with the interest thereon. In the event of death prior to retirement, the member's spouse may receive a life annuity or elect to receive a lump sum payment of employee and employer contributions plus interest. If the member's beneficiary is other than the spouse, a lump sum payment of employee and employer contributions plus interest is made.

The liability associated with the Money Accumulation Component is included in accrued pension benefits and totals $14.2 million (2009 - $13.3 million).

Retirement Annuities Component

If a member elects to purchase an annuity through the Commission, an annuity contract is issued based on the member's balance, current interest rates and annuity tables.

The present value of these annuities is reflected as a liability of the Plan.

Supplementary Benefits

In accordance with the Act, the Commission may grant supplementary benefits to those members receiving pensions and annuities to compensate them for lost purchasing power. The Commission may grant the supplementary benefits as long as the solvency of the entire Plan is not impaired.

Income Taxes

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

a. Basis of Presentation

The Plan has disclosed financial results for its Defined Benefit and Retirement Annuities components separately. The Plan maintains a single investment portfolio and assets were allocated to the retirement annuities component at January 1, 2002 based upon the provision for annuity benefits as at that date. Investment income and operating expenses have been allocated between the two components based upon the market value of assets within each component.

b. Investments

Investments are stated at fair value. The change in the fair value of investments at the beginning and end of each year is reflected in the statement of changes in net assets available for benefits.

Fair value of investments is determined as follows:

Short term investments are valued at cost which, together with accrued investment income, approximates fair value given the short term nature of these investments.

Bonds and equities are valued at year-end quoted bid prices from recognized security dealers and accredited stock exchanges on which the security is principally traded.

Infrastructure investments are valued at market values supplied by the infrastructure investment manager. These market values are based on a valuation of the underlying investments performed by the infrastructure investment manager.

Pooled fund investments are valued at the unit value supplied by the pooled fund administrator, which represent the underlying net assets of the pooled fund at fair values determined using closing bid prices.

Real estate is valued using market values from independent appraisals. The frequency of real estate appraisals occurs at least annually.

Investments in derivative financial instruments, including futures, forwards and option contracts, are valued at year end quoted market prices where available. Where quoted market prices are not available, values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the position.

Investment transactions are recorded on the trade date.

c. Investment Income and Transaction Costs

Investment income, which is recorded on the accrual basis, includes interest income, dividends and real estate operating income.

Brokers' commissions and other transaction costs are recognized in the statement of changes in net assets available for benefits in the period incurred.

d. Foreign Currency Translation

The fair values of foreign currency denominated investments included in the statement of net assets available for benefits, accrued pension benefits and surplus are translated into Canadian dollars at year end rates of exchange. Gains and losses from translations are included in the net unrealized change in fair value of investments.

Foreign currency-denomination transactions are translated into Canadian dollars at the rates of exchange on the trade dates of the related transactions. Realized gains and losses on the sale of investments are included in the change in market value of investments.

e. Provision for Annuity Benefits

Provision for annuity benefits represents the present value of the retirement annuities underwritten by the Plan and is determined pursuant to an actuarial valuation or extrapolation. Any change in the liability pursuant to the valuation or extrapolation is recognized as an increase or decrease in that year's net assets available for benefits.

f. Use of Estimates

The preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statement and the recorded amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the valuation of investments, the provision for annuity benefits and accrued pension benefits. Actual results could differ from these estimates.

g. Future Accounting Policy Changes

In April 2010, the Canadian Accounting Standards Board (AcSB) released Part IV of the Canadian Institute of Chartered Accountants (CICA) Handbook – Accounting, which consists of Pensions Plans, Section 4600. First-time adoption of this Part of the Handbook is mandatory for fiscal years beginning on or after January 1, 2011. The plan is currently assessing the impact of these changes on the financial statements and related notes.

3. Investments

Details of significant terms and conditions, exposure to interest rate and credit risks of investments are as follows:

Short Term Investments

These investments are comprised of treasury bills, notes, commercial paper and a short-term investment fund. Short-term investments held as of December 31, 2010 had effective interest rates of 0.9% to 1.9% (2009 - 0.1% to 1.9 %) and an average term to maturity of 69 days (2009 – 107 days). The Plan's investment policy states that investments must meet a minimum investment standard of "R-1" or equivalent rating as rated by a recognized bond rating service. Other than the Government of Canada, no single issuer represents more than 16.67% (2009 – 17.22%) of the total Plan's short-term investments.

Bonds

The Plan's investment policy states that bonds must meet a minimum quality standard of BBB as rated by a recognized bond rating service. In addition, not more than 15% of its total bond market value may be invested in BBB rated bonds. As at December 31, 2010, the Plan held 5.74% (2009 – 5.4%) of its portfolio in BBB bonds.

The market value, coupon rates and effective interest rate to maturity are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

2010 (in thousands)

Years to Maturity	Supranational	Federal	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	-	$53,781	$ -	$ -	$ 32,271	$86,052	1.39% - 6.75%	3.59%
5 to 10	-	10,119	25,386	9,391	45,253	90,149	0.29% - 11.00%	4.61%
Over 10	-	17,597	24,838	1,133	24,543	68,111	3.25% - 8.75%	4.76%
Market Value	-	$81,497	$50,224	$10,524	$102,067	$244,312		

2009 (in thousands)

Years to Maturity	Supranational	Federal	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	-	$38,332	$ 4,158	$ -	$ 49,254	$91,744	0.80% - 6.75%	4.10%
5 to 10	-	9,295	12,339	8,053	25,447	55,134	0.48% - 6.02%	4.14%
Over 10	-	12,608	37,320	1,049	32,564	83,541	3.75% - 11.00%	5.27%
Market Value	-	$60,235	$53,817	$9,102	$107,265	$230,419		

Equities

The Plan's investment policy allows no one holding to represent more than 10% of the market value of the related portfolio and no one holding to represent more than 10% of the common stock in any corporation.

The investment policy allows between 26% and 46% of the Plan to be invested in foreign equities, including those held in pooled funds. As at December 31, 2010 the Plan held 7.55% (2009 – 7.72%) of the Plan's total investments in foreign equities and 28.03% (2009 – 27.85%) of the Plan's total investments in pooled foreign equity funds. Foreign equities are comprised of 50.83% (2009 – 52.06%) in US equities and 49.17% (2009 –47.94%) in Non-North American equities.

All foreign equities are reported in Canadian dollars.

The Plan's equities have no fixed maturity date and are not exposed directly to interest rate risk. Dividends are generally declared on a quarterly basis. The average effective dividend rate is 2.89% (2009 – 3.25%).

Infrastructure Investments

Infrastructure investments are made through limited partnership arrangements. Advances are made to the limited partnerships, some of which is used to select and provide management support to the invested companies. The investments represent ownerships in entities that invest in infrastructure assets.

The Plan's infrastructure investments consist of the following:

	(in thousands) 2010	2009
SteelRiver	$ 24,402	$ 20,914
Global Infrastructure Partners	30,354	25,901
	$ 54,756	$ 46,815

The Plan's investment policy limits infrastructure investments to a maximum of 8% of the Plan's assets. As of December 31, 2010 the Plan's infrastructure investments were 3.91% (2009 - 3.64%) of the Plan assets.

SteelRiver is a limited partnership formed to invest in North American infrastructure projects. The Plan is committed to a further investment in this limited partnership of $14.3 million in US funds over a period of up to 20 years.

Global Infrastructure Partners is a limited partnership formed to invest in worldwide infrastructure projects. The Plan is committed to a further investment in this limited partnership of $8.8 million in US funds over a period of 10 years.

Infrastructure managers utilize an internal valuation policy to establish a market value for the underlying assets within their portfolios. This policy outlines that any marketable assets within the portfolio will be valued at the price on the securities exchange. Non-marketable securities will be subject to professional judgment and may take into account several factors such as:

- Market conditions
- Purchase price
- Estimate liquidation value
- Third-party transactions in the private market
- Present value of expected future cash flows
- Present value of anticipated sale or flotation when asset is soon to be divested

The above factors involve various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments.

Pooled Funds

The Plan's investment policy limits pooled fund holdings to not more than 10% of the market value of the individual pooled fund. Exceptions to the 10% limit are allowed if provision has been made to transfer securities in kind out of the pooled fund when assets are transferred out of the pooled fund.

The Plan's pooled funds are comprised of:

Pooled Fund	Units Held (in thousands)		% of Total Units Outstanding		Market Value (in thousands)	
	2010	2009	2010	2009	2010	2009
US Equity						
BlackRock CDN US Equity Index Hedged Non-Taxable Fund	13,864	14,654	18.26%	10.66%	$146,565	$135,709
Global Equity						
Greystone EAFE Plus Fund	15,420	12,774	7.01%	6.73%	118,428	97,273
Brandes Canada International Equity Unit Trust	11,242	10,120	18.38%	15.70%	124,977	117,127
Fixed Income Funds						
BlackRock Canada Universe Bond Index Class A Fund	7,214	7,368	3.79%	3.90%	174,720	167,124
Real Estate						
Greystone Real Estate Fund	1,116	910	3.26%	4.32%	79,567	59,769
					$644,257	$577,002

Pooled fund investments are governed by the policies for each fund. Financial derivatives are permitted within the pooled funds as outlined below.

BlackRock funds may contain equity index futures, to replicate the return of the S&P 500 Composite Index, and currency contracts used to hedge US dollar exposure back to the Canadian dollar.

Greystone is authorized to employ derivatives to protect against losses from changes in exchange rates, interest rates and market indices. These derivatives may include such instruments as options, futures, and forward contracts.

Brandes may employ the use of foreign exchange contracts to hedge against changes in exchange rates and American depositary receipts to substitute for direct investment in the underlying security.

Real Estate

Investments in real estate consist of Canadian commercial property held directly by the Plan.

Real estate investments are valued by third parties. The following considerations are used to determine market value:

- New acquisitions will be carried at the original acquisition cost for the first twelve months and are then appraised in the next appraisal cycle
- During the appraisal cycle, properties are valued using market appraisals conducted by qualified external real estate appraisers
- Real estate under development must be appraised within twelve months after the development is substantially complete
- Fair value of the real estate investments is determined on the last business day of each month using the most recent financial information of the underlying real estate properties.

The market appraisals involve various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments.

Fair Value

The Plan has classified its investments using a hierarchy that reflects the significance of the inputs used in determining their fair value.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments values using inputs that are not based on observable market data are classified as Level 3.

The following table classifies the Plan's required financial instruments within a fair value hierarchy:

(thousands of dollars)

	Level 1	Level 2	Level 3	Total
Bonds and debentures		$244,312		$244,312
Pooled income fund	$389,970	174,720		564,690
Short-term	32,548			32,548
Real estate funds			$ 83,401	83,401
Equities	408,882			408,882
Infrastructure			54,756	54,756
Total	$831,400	$419,032	$138,157	$1,388,589

Fair Value measurements using level 3 inputs

	SteelRiver	Global Infrastructure Partners	Real Estate	Total
Balance at December 31, 2009	$20,914	$25,901	$78,900	$125,715
Net Purchases and sales	2,796	2,483	(1,712)	3,567
Net Transfer in (out)	-	-		-
Gains (Losses)				
Realized	(503)	(27)	8,388	7,858
Unrealized	1,195	1,997	(2,175)	1,017
Balance at December 31, 2010	$24,402	$30,354	$83,401	$138,157

4. Forward Contracts

The Plan has entered into foreign exchange forwards contracts to hedge some of its foreign currency exposure in foreign equity pooled funds. Foreign exchange forwards contracts are obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement on a predetermined date in the future. The Active Foreign Currency Manager has two separate objectives within the Plan; one is a pure currency hedge play and the other is an alpha play (return seeking).

Regarding the currency hedge objective, the Plan uses a currency risk management program to manage the currency exposures inherent in the foreign equity pooled funds of the Plan, as well as provide protection of the Canadian value of the portfolio. Forward contracts are used to hedge the foreign currency exposure within the Greystone EAFE Plus Fund and the Brandes Canada International Equity Unit Trust. The following summarizes the Plan's use of foreign currency forward exchange contracts within the currency risk management program:

FOREIGN EXCHANGE FORWARD CONTRACTS

(in thousands of dollars)

		2010			2009		
# of Contracts	Currency	Notional Value*	Gain (Loss)	Net Exposure	Notional Value*	Gain (Loss)	Net Exposure
6	Euro	(66,355)	2,757	37.2%	(55,106)	655	41.8%
2	Hong Kong Dollar	(3,803)	97	48.9%	(3,217)	(57)	53.5%
6	Japanese Yen	(28,622)	216	44.9%	(23,148)	108	46.2%
5	Pound Sterling	(26,272)	764	42.2%	(24,075)	(1,274)	43.3%
7	Swiss Franc	(5,249)	(316)	63.1%	(4,877)	(51)	51.5%
		-	3,518		-	(619)	

Net exposure of the Greystone EAFE Plus Fund and Brandes Canada International Equity Trust Unit is the percentage of investments denominated in foreign currency that are not hedged through forward exchange contracts.

The hedge strategy involves protecting against the foreign equity exposures that exist in the underlying portfolio of Non-North American equity mandates. The Active Foreign Currency Manager's benchmark hedge ratio is 50% of the underlying portfolio, although the manager has the discretion to apply a hedge ratio between 0-100% of the underlying portfolio. Hedging is limited to those foreign currency exposures that are included in the MCSI EAFE Index and excludes any Canadian Dollar exposures.

The return seeking objective of the Active Foreign Currency Manager is to add value to the Plan by generating returns from relative movements between foreign currencies. This objective is independent of the hedging strategy and is not restricted to those currencies that exist in the underlying portfolio. The following summarizes the Plan's use of these foreign currency forward exchange contracts:

FOREIGN CURRENCY FORWARD CONTRACTS

(in thousands of dollars)

	2010		2009	
	Market Value	Notional Value*	Market Value	Notional Value*
Euro	$ (5,987)	$ (5,987)	$ (42)	$ (42)
United States Dollar	5,318	5,987	(90)	42
Net gain / (loss)	$ (669)	-	$ (132)	-
Euro	$ (183)	$ (183)	$ 460	$ 460
Japanese Yen	(62)	183	(456)	(460)
Net gain / (loss)	$ (245)		$ 4	
Australian Dollar	2,567	2,567	-	
United States Dollar	(2,504)	(2,567)	-	
Net gain / (loss)	63		-	
United States Dollar	(1,666)	(1,666)	-	
Japanese Yen	1,543	1,666	-	
Net gain / (loss)	$ (123)		-	

*Notional value represents the contractual amount to which a rate or price is applied in order to calculate the exchange of cash flows, and is therefore not recorded in the financial statements.

Based on the current rate of exchange as of December 31, 2010, the forward contracts under both Plan objectives are in a net gain position of $2.5 million (2009 – loss of $0.7 million). The foreign currency forward exchange contracts are short-term in duration and all current contracts as of December 31, 2010 have a maturity date of April 19, 2011. This amount is included in short term investments on the Statement of Net Assets Available for Benefits.

5. **Due from General Revenue Fund**

The Plan's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

Earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty day borrowing rate and the Plan's average daily bank account balance. The Government's thirty-day borrowing rate for 2010 was 0.6% (2009 - 0.5%).

6. **Earnings Allocation to Members**

Interest is allocated annually to the individual member's account balances in accordance with the provisions of the governing legislation. In 2010 an interest rate of 9.08% (2009 – 10.09%) was calculated and applied to the Money Accumulation Component and the Defined Benefit Component. The interest allocated is investment income, the current year's allocation of the change in market values of the investments, less administration, custodian and investment managers' fees.

7. **Transfers and Refunds**

	(in thousands)	
	2010	**2009**
Transfers to other retirement plans	$ 818	$ 717
Transfer to other retirement vehicles	13,408	14,700
Withdrawals with interest	3,378	4,257
	$17,604	$19,674

Benefit Payments

	(in thousands)	
	2010	**2009**
Lump sum payments to estates	$ 1,864	$ 2,140
Payments in lieu of annuities	4,803	4,488
	$ 6,667	$ 6,628

8. **Accrued Pension Benefits**

The actuarial present value of pension benefits for the Defined Benefit Component of the Plan was determined using the projected benefit method prorated on service and the administrator's best estimate of future investment performance, salary escalation, inflation, and future pension indexing. An actuarial valuation was performed as at December 31, 2009 by Eckler Ltd. and they have extrapolated the results of that valuation to December 31, 2010.

The pension liability is based on a number of assumptions about future events including interest rates, rate of salary increases, inflation, mortality, retirement rates and termination rates. The assumptions used in determining the actuarial present value of pension benefits for the Defined Benefit Component of the Plan were:

	2010	2009
Interest rate	5.75%	6.0%
Salary escalation to Dec 2012	4.5%	4.5%
Salary escalation thereafter	3.5%	3.5%
Inflation	2.5%	2.5%
Indexation of pensions	none assumed	none assumed
Mortality	UP94 (projected generationally)	UP94 (projected to 2015)

Net experience gains and losses result from differences between actual and expected employee terminations, retirements, salary increases and deaths.

Actual rates may vary significantly from the long-term assumptions used. The following illustrates the effect of changing certain assumptions from the assumed escalation rates of salary 4.5% initially, 3.5% thereafter, interest rate 5.75% and no indexing on post-1998 benefits. The changes in assumptions are independent of one another.

	Effect on Accrued Pension Benefits Liability				
	Salary		Interest Rate		Pension Indexing (post 1998)
Assumptions	3.5% (2) 2.5% (+)	5.5% (2) 4.5% (+)	4.75%	6.75%	1.00%
(Decrease) Increase	(3.6%)	4.0%	16.3%	(12.9%)	(5.5%)

9. Provision for Annuity Benefits

The provision for annuity benefits was determined using the administrator's best estimate of future investment performance and future pension indexing. Eckler Ltd. performed an actuarial valuation of annuities as at December 31, 2009 and extrapolated the results of that valuation to December 31, 2010.

The actuarial valuation was based on a number of assumptions about future events including interest rates, pension indexing (for members who elected indexed annuities) and mortality as follows:

	2010	2009
Interest rate	5.75%	6.0%
Indexation of pensions	2.5%	2.5%
Mortality	UP94 (projected generationally)	UP94 (projected to 2015)

The actual rates may vary significantly from the assumptions used. The following illustrates the effect of changing certain assumptions from the assumed interest rate of 5.75% and pension indexing of 2.5%. The changes in assumptions are independent of one another.

	Effect on Provision for Annuity Benefits			
	Interest Rate		Pension Indexing	
Assumptions	4.75%	6.75%	1.5%	3.5%
(Decrease) Increase	6.4%	(5.7%)	(0.4%)	0.4%

In the future, increases on non-indexed annuities will be granted to the extent that investment earnings exceed a threshold and to the extent that the assets will support it. As there is currently no surplus available, the liabilities for non-indexed annuities do not reflect any future indexing.

The cash outflow to pay the required annuity obligation is calculated using the above assumptions. The cash outflows in the next 5 years would be $15.3 million, in the next 10 years $25.7 million and in the next 30 years $37.7 million.

10. Financial Risk Management

The nature of the Plan's operations result in a statement of net assets available for benefits, accrued pension benefits, and surplus that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Plan's investments. These financial risks are managed by having an investment policy, which is approved annually by the Commission. The investment policy provides guidelines to the Plan's investments managers for the asset mix of the portfolio regarding quality and quantity of fixed term investments, real estate and equity investments. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. Derivatives are allowed within the Plan to hedge against losses and substitute for direct investment. The Commission's policy prevents the use of derivatives for speculative trading or to create a portfolio with leverage. The Commission reviews regular compliance reports from its investment managers and custodian as to their compliance with the investment policy. The Commission also reviews regular compliance reports from its custodian as to the investment managers' compliance with the investment policy.

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which it is exposed at December 31, 2010 is limited to the carrying value of the financial assets summarized as follows:

	(thousands of $'s)	
	2010 Carrying value	2009 Carrying value
Cash	$ 545	$2,555
Accounts receivable	6,091	21,635
Fixed income investments[1]	451,580	415,424
Due from the General Revenue Fund	4,016	3,586

[1] Includes short-term investments, bonds and the fixed income pooled fund.

Accounts receivable are made up of employee and employer contributions receivable, accrued investment income, and accrued receivable for committed sale of an investment. Employee and employer contributions receivable are generally received in less than 30 days. Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually. Sale of an investment will be received the following month.

Credit risk within investments is primarily related to short-term investments, bonds, and the fixed income pooled fund. It is managed through the investment policy that limits fixed term investments to those of high credit quality (minimum rating for bonds, BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit rating for bonds are as follows:

Credit Rating	2010 Fair Value (thousands of $)	2010 Makeup of Portfolio (%)	2009 Fair Value (thousands of $)	2009 Makeup of Portfolio (%)
AAA	95,927	39.27	$ 88,943	38.60
AA	78,966	32.32	71,445	31.00
A	55,385	22.67	57,504	24.96
BBB	14,034	5.74	12,527	5.44
Total	244,312	100.0	230,419	100.0

Within bond investments, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 3.79% of the market value of the combined bond and short term investment portfolios. No one holding of a province is over 5.34% of the market value of the bond portfolio.

The Plan is also subject to credit risk through its use of forward currency contracts. The contracts are entered into between the Plan and approved counterparties. The credit risk is mitigated by limiting counterparties to specific entities approved by the Commission and by settling contracts on a semi-annual basis. The currency manager must receive approval from the Commission prior to engaging a new counterparty.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Plan is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and the fixed income pooled fund. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase in interest rates would decrease net assets available for benefits and surplus by $26.7 million at December 31, 2010; representing 6.35% of the $419 million fair value of fixed income investments. Conversely, a decrease in interest rates of 100 basis points would increase net assets available for benefits and surplus by $26.7 million at December 31, 2010; representing 6.35% of the $419 million fair value of fixed income investments.

Foreign exchange

The Plan is exposed to changes in the U.S./Canadian dollar exchange rate through its U.S. denominated investments. Also, the Plan is exposed to EAFE (Europe, Australia and Far East) currencies through its investment in global equity pooled funds. Exposure to both U.S. equities and non-North American equities, including pooled equity fund, is limited to a maximum 46% each of the market value of the total investment portfolio. At December 31, 2010, the Plan's exposure to U.S. equities was 18.1% (2009 – 18.5%) and its exposure to non-north American equities was 17.5% (2009 – 17.1%).

At December 31, 2010, a 10% appreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $10.5 million decrease in the increase in net assets available for benefits and surplus. A 10% weakening in the Canadian dollar versus the EAFE currencies would result in approximately a $10.5 million increase in the increase in net assets available for benefits and surplus.

The Plan's exposure to exchange rate risk resulting from the purchase of goods and services is not considered material to the operations of the Plan. The Plan has mitigated its exposure to foreign exchange through the use of derivatives as in Note 4. As at December 31, 2010, the Plan's exposure net of derivatives is $262 million. A 10% change in the exchange rate would equate to a net change of $26.2 million.

Equity prices

The Plan is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities comprise 57.4% (2009 – 57.4%) of the carrying value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee represents greater than 10% of the market value of the Plan. As well, no one holding represents more than 30% of the outstanding share issue of any corporation.

The following table indicates the approximate change that could be anticipated to both the increase in net assets available for benefits and surplus based on changes in the Plan's benchmark indices December 31, 2010:

	(Change in thousands of $)	
	10% increase	10% decrease
S&P/TSX Composite Index	$ 30,382	$ (30,382)
S&P 500 Index	25,163	(25,162)
MSCI EAFE Index	24,341	(24,341)

Securities collateral

At December 31, 2010, no Plan assets have been deposited or pledged as collateral or margin. As part of the Plan's securities lending strategy, collateral has been pledged to the Plan by various counterparties for securities out on loan to the counterparties. At December 31, 2010, the total amount of collateral pledged to the Plan amounted to $150 million (2009 – $66.9 million). Security lending obtains collateral of at least 105% of the market value of the securities lent. Such loans must be secured by cash and/or readily marketable government bonds, treasury bills and /or letters of credit, discount notes and banker's acceptances of Canadian chartered banks.

Real Estate and Infrastructure Investment Risk

Risk in the real estate portfolio and infrastructure investments are managed through diversification across types and locations. Adverse impacts in any one segment of the market or geographic location are minimized by having holdings diversified across property type, geographic location and investment size.

Liquidity risk

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. Accounts payable are due within one year.

11. Administration Expenses

The annual operating expenditures associated with the Plan's administration are paid to the Public Employees Benefits Agency Revolving Fund except for custodial fees and investment management fees, which are paid directly.

	(in thousands of dollars)			
		2010		2009
	Budget	Actual	Budget	Actual
	(unaudited)		(unaudited)	
Administration costs	$4,605	$4,048	$4,294	$3,770
Custodial fees	192	155	202	167
Investment fees	4,337	4,254	4,101	4,712
	$9,134	$8,457	$8,597	$8,649

12. Related Party Transactions

All Government of Saskatchewan agencies such as ministries, corporations, boards and commissions are related to the Plan by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control or significant influence by the Government of Saskatchewan collectively referred to as "related parties". Costs charged by the Public Employees Benefits Agency Revolving Fund in administering the Plan are reflected in these financial statements.

The Plan holds $7.2 million (2009 - $6.3) in Province of Saskatchewan Bonds. Investment gain on these bonds, including the current period change in the market value of investments, was $0.7 million (2009 – $0.3).

The Plan has an accounts payable balance as at December 31, 2010 of $0.5 million (2009 – $0.3) due to the Public Employees Benefits Agency Revolving Fund.

Other related party transactions are disclosed separately in these financial statements.

Account balances resulting from the above transactions are included in the statement of net assets available for benefits and are settled at agreed upon exchange rates.

13. Investment Performance

The investment managers make day-to-day decisions on whether to buy or sell investments in order to achieve the long-term performance objectives set by the Commission. The Commission reviews the investment performance of the Plan in terms of the performance of the benchmark portfolio over 4 year rolling periods. The primary long-term investment performance objective for the entire portfolio is to outperform a benchmark portfolio.

The following is a summary of the Plan's investment performance:

	2010	Rolling Four Year Average Annual Return
Plan's actual rate of return before deducting investment and administration expenses	10.0%	2.4%
Benchmark	10.1%	1.9%

The Plan's benchmark for its investment portfolio has been determined using the actual returns of market indexes such as the S&P/TSX Capped Composite Index, Standard & Poor's 500 Hedged U.S. Stock Index, Russell 2500 Hedged index, Morgan Stanley, Europe, Australasia and Far East Index, DEX Universe Bond Index, 91 Day Canadian Treasury Bill, and Investment Property Databank Ltd. Return Index.

14. Fair Value

For financial instruments including due from general revenue fund, short-term investments, accounts receivable, and accounts payable, cost approximates fair value due to their immediate or short-term maturity.

The fair values of investments are considered to be market value, the calculation of which is detailed in Note 2. The fair value of the provision for annuity benefits, as well as the accrued pension benefits, has been estimated by actuarial valuation; information about these liabilities is provided in Notes 8 and 9.

15. Contingencies

A union representing participating employees has applied by Notice of Motion, which also names several participating employers, for an order quashing purported decisions of the Commission relating to the application of actuarial surplus in the fund, as well as other relief. It is not possible to estimate the potential effect of the claim at this stage in the proceedings.

16. Subsequent Events

On September 18, 2009 the Commission approved a recommendation to the Minister of Finance that *The Municipal Employees' Pension Regulations* be amended to increase:

- The general members contribution rate to 7.4 percent from 6.4 percent effective January 1, 2011; and
- The designated police officer and firefighter contribution rate be increased to 10.2 percent from 8.75 percent effective January 1, 2011.

These recommendations were taken into account when the 2009 Valuation was completed.

17. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

Appendix 'A'

S&P/TSX Composite

The S&P/TSX Composite Index is Canada's bellwether electronically operated stock exchange. It is the headline index and the principal broad market measure for the Canadian equity markets. This is the basis for numerous sub-indices, which break down the Canadian market by different factors including size, Global Industry Classification Standard (GICS®) and income trust inclusion versus non-inclusion. The index is calculated and managed by Standard & Poor's and is the main benchmark for Canadian pension and mutual equity funds.

S&P/TSX Capped Composite

S&P/TSX Capped Composite index includes all constituents of the S&P/TSX Composite index with relative weighting of each constituent capped at 10% equity weighting.

S&P 500

Standard & Poor's 500 Composite Stock Index consists of the largest 500 companies in the United States chosen for market size, liquidity and industry group representation. It is a market-value weighted index, with each stock's weight in the index proportionate to its market value. For the purposes of this report, the S&P Index returns are converted from U.S. dollars into Canadian dollars and, therefore, reflect currency gains or losses.

MSCI EAFE

Morgan Stanley Capital International Europe, Australasia, Israel, and Far East Index (MSCI Index) is a widely recognized benchmark of international equity performance. It is a free-float weighted equity index comprising of over 20 developed market country underlying indices representing developed markets outside of Canada and the US.

DEX UBI

DEX (formerly Scotia Capital) Universe Bond Index covers all marketable Canadian bonds with term to maturity of more than one year. The Universe contains over 1,000 marketable Canadian bonds with an average term of 10 years and an average duration of 6.5 years. The purpose of the index is to reflect the performance of the broad "Canadian Bond Market" in a similar manner to the S&P/TSX Composite Index.

IPD Total Property

The REALpac / IPD Canada Annual Property Index is published by the Investment Property Databank Ltd. On December 31, 2010, REALpac assumed the functions of the Institute of Canadian Real Estate Investment Managers ("ICREIM"), an organization originally formed to manage the Frank Russell Index for Canada and subsequently, the ICREIM / IPD Canada Property Index. The index measures total returns to directly held standing property investments from one open market valuation to the next. IPD compiles property level information from pension funds, life insurance companies and real estate managers on a quarterly basis.

91-Day T-Bills

Canada Treasury Bills represent the highest quality short-term instruments available. The index is constructed by selling and repurchasing Government of Canada T-Bills with an average term to maturity of 91 days. The Scotia Capital 91-Day Treasury Bill Index is calculated and marked to market daily.

CPI

Consumer Price Index is used to gauge Canada's inflation rate. The series used is the all items, not seasonally adjusted, 1992 base.

Russell 2500

The Russell 2500 Index offers investors access to the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap segment and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set.